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Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 AID-05 CIAE-00 COME-00
EB-08 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00
XMB-04 OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05
SS-15 STR-04 CEA-01 AGRE-00 FEAE-00 /114 W
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R 271515Z APR 77
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 2156
INFO AMEMBASSY BONN
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AMEMBASSY ROME
AMEMBASSY TOKYO
USDEL MTN GENEVA
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL BORDEAUX
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AMCONSUL STRASBOURG

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PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E.O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 10863, APRIL L4

1. SUMMARY

THE CALM IN WHICH THE ECONOMY HAS BEEN DRIFTING FOR
THE PAST SEVERAL MONTHS HAS YET TO BE BROKEN. THE
TREND CONTINUES WITH SOME GOOD NEWS (THIS TIME IT IS
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THE IMPROVEMENT IN THE TRADE DEFICIT) OFFSETTING SOMEWHAT
THE BAD NEWS (INDUSTRIAL PRODUCTION AND
UNEMPLOYMENT) AND VICE VERSA. EVERYONE IS WAITING
TO SEE THE IMPLICATIONS FOR THE ECONOMY OF THE
SECOND PART OF THE BARRE PLAN TO BE ANNOUNCED
IMMINENTLY, WHICH WILL BE REPORTED BY SEPTEL.END SUMMARY

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2. BOF ESTIMATES PROSPECTS FOR INDUSTRIAL ACTIVITY FAVORABLE UNTIL VACATION PERIOD

ACCORDING TO THE GOF, INDUSTRIAL ACTIVITY (EXCLUDING THE BUILDING INDUSTRY) APPEARED TO BE FIRMER IN MARCH THAN IN THE PRECEDING MONTH. HOWEVER, THIS INCREASE IN INDUSTRIAL PRODUCTION WAS DUE FOR THE MOST PART TO SEASONAL FACTORS. THE CONSUMER GOODS SECTOR AND CERTAIN INTERMEDIATE GOODS INDUSTRIES SHOWED THE LARGEST IMPROVEMENT.

FRENCH INDUSTRIALISTS CONTINUED TO BE VERY CAUTIOUS, ADJUSTING THE VOLUME OF THEIR PRODUCTION TO THAT OF DEMAND IN ORDER NOT TO ADD TO THEIR FINANCIAL CHARGES RESULTING FROM AN INCREASE IN INVENTORIES. THE FLOW OF DOMESTIC ORDERS REFLECTS THIS HESITATION. FOREIGN DEMAND SHOWED SOME ENCOURAGING DEVELOPMENTS, DESPITE STIFF FOREIGN COMPETITION. HOWEVER, ON THE WHOLE, BACK ORDERS REMAINED AT A LOW LEVEL.

THE PROSPECTS FOR INDUSTRIAL ACTIVITY APPEAR FAVORABLE UNTIL THE VACATION PERIOD IN JULY AND AUGUST. THE BOF REPORTS THAT INDUSTRIALISTS HAVE BEEN PRUDENT CONCERNING PRICES AND OFTEN HAVE NOT INCREASED THEIR PRICES BY AS MUCH AS THEY HAVE BEEN AUTHORIZED. THEREFORE, THE FINANCIAL SITUATION OF FIRMS HAS ONLY SLIGHTLY IMPROVED. INDUSTRIALISTS CONTINUED TO APPEAR RESERVED REGARDING INVESTMENT; HOWEVER, NOT ENOUGH TIME HAD ELAPSED BEFORE THIS INQUIRY TO ANALYZE THE UNCLASSIFIED

EFFECTS OF THE GOF'S AIDS TO STIMULATE INVESTMENT.

3. INSEE ESTIMATE OF 1976 INVESTMENT EXPENDITURE REVISED DOWNWARD BUT INDUSTRIAL INVESTMENT IN 1977 REVISED UPWARD TO 4 PERCENT

THE MOST RECENT INSEE SURVEY OF INVESTMENT IN INDUSTRY, WHICH IS CONDUCTED THREE TIMES A YEAR AND WHICH COVERS A LITTLE MORE THAN TWO-FIFTHS OF PRODUCTIVE INVESTMENT OF NON-FINANCIAL ENTERPRISES IN THE PUBLIC AND PRIVATE SECTORS, HAS REVISED DOWNWARD THE ESTIMATE OF INVESTMENT EXPENDITURE UNDERTAKEN BETWEEN 1975 AND 1976 (SEE PARIS 37896, 1976). THE NOVEMBER SURVEY INDICATED A REAL INCREASE OF 3-4 PERCENT IN INVESTMENT BUDGETS IN 1976. IT NOW APPEARS THAT INVESTMENT EXPENDITURES IN VALUE TERMS INCREASED BY ONLY 9 PERCENT, WHICH IMPLIES NO INCREASE IN REAL INVESTMENT. THIS WAS DUE TO COMPANIES SPENDING

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LESS FOR INVESTMENT THAN THEIR INITIAL BUDGETS
AND DELAYING PART OF THEIR EXPENDITURES TO 1977.

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FM AMEMBASSY PARIS
TO SECSTATE WASHDC 2157
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DESPITE THIS OVER-ALL TREND, THERE WAS A SUBSTANTIAL INCREASE IN INVESTMENT IN VALUE TERMS IN THE CAPITAL GOODS SECTOR (14 PERCENT). NOMINAL INVESTMENT INCREASED BY 11 PERCENT IN THE CONSUMER GOODS SECTOR AND BY 5 PERCENT IN THE INTERMEDIATE GOODS SECTOR. IT WAS HIGHER FOR SMALL AND MEDIUM SIZED FIRMS THAN FOR LARGER FIRMS.

1977 COMPANY BUDGETS INDICATE AN INCREASE IN INVESTMENT EXPENDITURE NEAR 12 PERCENT. THE
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INDUSTRIALISTS EXPECT A 7.3 PERCENT INCREASE IN THE PRICES OF CAPITAL GOODS WHICH WOULD RESULT IN AN INCREASE IN REAL INVESTMENT SLIGHTLY HIGHER THAN 4 PERCENT. THE LARGEST INCREASES IN INVESTMENT ARE EXPECTED IN THE AUTOMOBILE, GLASS, AND PETROLEUM INDUSTRIES. NOTE: INSEE ESTIMATES OF INVESTMENT HAVE BEEN REVISED DOWNWARD RETROACTIVELY FOR EVERY YEAR SINCE 1975 AND 1977 MAY PROVE TO BE NO EXCEPTION.

4. FURTHER DETAILS ON THE FF 2 BILLION TO FINANCE LARGE FIRMS' INVESTMENTS

FURTHER DETAILS HAVE BEEN SPECIFIED ON THE FF 2 BILLION TO BE LENT TO LARGE FIRMS TO FACILITATE THE FINANCING OF INVESTMENT. THIS FINANCING WILL BE COMPOSED OF TWO PARTS: FF 700 MILLION IN LONG-TERM LOANS BY THE CREDIT NATIONAL AND FF 1.3 BILLION IN MEDIUM TERM LOANS BY PRIVATE BANKS WHICH WILL NOT BE SUBJECT TO THE CREDIT CONTROLS. FOR THE FIRST FIVE YEARS OF THE LONG-TERM LOANS THE RATE OF INTEREST WILL BE LOWER THAN THE CURRENT RATE OF THE CREDIT NATIONAL (11 PERCENT). AT THE END OF FIVE YEARS BORROWERS WILL BE GIVEN THE CHOICE OF EITHER REPAYING THE LOAN OR OF OBTAINING A NEW TEN-YEAR LOAN FOR THE SAME AMOUNT BUT WITH THE ACTUAL INTEREST RATE OF THE CREDIT NATIONAL IN FORCE AT THAT TIME.

5. TRADE DEFICIT REGISTERS FURTHER IMPROVEMENT IN MARCH

FRANCE'S SEASONALLY ADJUSTED FOREIGN TRADE DEFICIT WAS FF 1,240 IN MARCH, THE SMALLEST DEFICIT SINCE LAST JUNE. EXPORTS INCREASED BY 3.9 PERCENT TO FF 26,528 MILLION. IMPORTS, WHICH HAVE BEEN UNCLASSIFIED

NEARLY FLAT SINCE LAST SEPTEMBER WERE FF 27,768 MILLION. THE RATE OF EXPORT COVER WAS 95.5 PERCENT.

FRENCH FOREIGN TRADE
(SEASONALLY ADJUSTED, IN BILLIONS OF FRANCS, FOB-FOB)

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	OCT.	NOV.	DEC.	JAN.	FEB.	MAR.
IMPORTS	28.0	28.3	26.0	27.7	27.1	27.8
EXPORTS	23.3	24.5	24.7	25.3	25.5	26.5
BALANCE	- 4.7	- 3.8	- 1.3	-2.4	- 1.5	- 1.2
X/M	83.2	86.5	94.9	91.3	94.4	95.5

TO THE CAMPAIGN TO ECONOMIZE ON ENERGY CONSUMPTION IS NOW ADDED THE PLEA TO DRINK LESS COFFEE. FRANCE'S COFFEE BILL IN MARCH WAS FF 675 MILLION, AS COMPARED TO A MONTHLY AVERAGE OF FF 120 MILLION IN 1975.

6. COMPANY FAILURES INCREASE IN MARCH

AFTER THREE SUCCESSIVE MONTHS OF DECLINE IN THE NUMBER OF COMPANY FAILURES, THE NUMBER INCREASED IN MARCH BACK TO THE JANUARY LEVEL. FOR THE FIRST THREE MONTHS OF 1977 THE NUMBER OF FAILURES

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SS-15 STR-04 CEA-01 AGRE-00 FEAE-00 /114 W
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INCREASED BY 7.4 PERCENT WITH RESPECT TO THE CORRESPONDING PERIOD IN 1976. THE SECTORS SHOWING THE LARGEST INCREASES DURING THIS PERIOD WERE THE HOTEL-CAFE-RESTAURANT SECTOR AND THE TRANSPORT SECTOR WITH INCREASES OF 29.5 PERCENT AND 21.9 PERCENT RESPECTIVELY. IN CONTRAST THE BUILDING-PUBLIC WORKS SECTOR SHOWED A DECLINE OF 3.5 PERCENT IN THE NUMBER OF JUDGMENTS OVER THIS PERIOD.

7. FURTHER SHARP INCREASE IN INTERNATIONAL PRICES
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OF IMPORTED PRIMARY MATERIALS

THE INDEX OF INTERNATIONAL PRICE OF PRIMARY MATERIALS IMPORTED BY FRANCE REGISTERED ANOTHER SHARP INCREASE IN MARCH, 10.8 PERCENT FOR THE MONTH AND 95.0 PERCENT FOR THE YEAR ENDING IN MARCH. PRICES OF AGRICULTURAL PRIMARY MATERIALS INCREASED BY 15.8 PERCENT IN MARCH (176.1 PERCENT FOR THE YEAR) WHILE THOSE OF INDUSTRIAL PRIMARY MATERIALS INCREASED BY 3.3 PERCENT (30.5 PERCENT FOR THE YEAR).

8. FRENCH EXTERNAL BORROWINGS

THE FOLLOWING LONG-TERM EXTERNAL FRENCH BORROWINGS WERE NOTED IN THE PRESS DURING THE REPORTING PERIOD:

(1) ELF-AQUITAINE, $100 MILLION, FLOATING INTEREST RATE, NO MATURITY SPECIFIED.

(2) THE LINE OF CREDIT FOR ELECTRICITE DE FRANCE (SEE REFTEL) HAS BEEN INCREASED FROM $400 MILLION TO $700 MILLION.

9. SEASONALLY ADJUSTED MONEY SUPPLY IN JANUARY

OFFICIAL DATA FOR ADJUSTED JANUARY MONEY SUPPLY ARE: M1, FF 447.5 BILLION; NEAR MONEY, FF 421.1 BILLION; AND M2- FF 869.4 BILLION. SEE REFTEL FOR OTHER MONEY SUPPLY DATA.

10. BARRE BIS

REPORT AND ANALYSIS ON THE SECOND PART OF THE BARRE PLAN WILL BE COVERED IN SEPTEL.

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11. OTHER REPORTS SUBMITTED DURING THE PERIOD
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TELEGRAMS
PARIS
11462 BLUMENTHAL INTERVIEW IN LES ECHOS OF 4/19 4/19
11366 FRENCH FINANCIAL & ECONOMIC DEVELOPMENTS 4/19
10959 ASIAN DEVELOPMENT BANK ANNUAL MEETING 4/14
10958 ANNUAL MEETING OF THE IDB 4/14
10907 PARIS FOREX MARKET OUTLOOK 4/14

AIRGRAMS
PARIS
A-149 FRENCH FOREIGN EXCHANGE HOLDINGS 4/25
A-148 UNEMPLOYMENT IN FRANCE 4/22
A-138 FRENCH FOREIGN EXCHANGE HOLDINGS 4/15
GAMMON

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Status: NATIVE
Subject: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS
TAGS: EALR, EFIN, EGEN, FR
To: STATE
Type: TE
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